

This paper reviews findings in business, economics, communications and psychology that reveal the role mood plays in driving performance, the role leaders play in driving moods and how narrative is the key to effectively impact success.

For more information please contact the authors at www.narrativeedge.com.

The Narrative Edge: The impact of story on business success

By Staci Collins, Kristin Penner, Kathy Kim

A classic study of MBAs in Martin & Power's *Psychological Foundations of Organizational Behavior* (1982) analyzed the effectiveness of four methods of persuasion on their acceptance of the unlikely hypothesis "that a company really practiced a policy of avoiding layoffs." The four methods were: a story alone, statistical data alone, a combination of statistics and story, and finally, a policy statement by senior company executive. Which was the most effective method? The first – a story alone.

What is going on here? A story alone convinced MBAs – those notoriously analytical, unemotional, clear-headed thinkers - better than statistical data? Surely it's an aberration. But more recently, leadership guru Noel Tichy, professor at University of Michigan Business School, management consultant to numerous corporations and head of General Electric's leadership development program, has made similar claims in his book on *The Leadership Engine: How Winning Companies Build Leaders at Every Level*, a Business Week Book of the Year in 1997, reissued in 2002.

His thesis on narrative: "...successful leaders must have teachable points of view about ideas, values, energy and edge. It is through stories, however, that they tie them together and teach and energize others to move from the present into a winning future." And "...the ability to create and tell certain kinds of dramatic stories is not only a useful tool, but an *essential prerequisite* to being a first-class winning leader."

He describes when Jack Welch took over GE in 1981, a time when GE was taught in business schools more than any other company as an example of complexity driving stability. Yet Welch began to describe competitors who were beating GE soundly because they didn't have such a thick organization structure. He highlighted similar companies that had now fallen on hard times and predicted GE would follow. He laid open GE's weaknesses, like running on huge order backlogs with no growth in sales. Then he began to describe a new future for GE – the famous "No. 1 or No.2" business in each industry in which it played – "the world's most exciting enterprise. Where ideas win. Where people flourish and grow. Where the excitement of their work lives is transferred to their whole lives."

His actions backed up his story as he divested of \$8.5 billion of presumably No. 3 or worse businesses, dismantled old bureaucracies, let go of managerial layers, brought together his leaders to share best practices and told the story to thousands. By 1996 GE had become "the world's most valuable enterprise" with a market value in excess of \$230 billion (Bloomberg). Only this April 2006, has GE been ousted from top spot in the Fortune 500 by Exxon (and a little help from war and Katrina).

Welch was not alone in using narrative as a leadership tool. Tichy writes, Lou Gerstner toured IBM in the early 1990's and a year later said, "[Changing a culture] is not something you do by writing memos. You've got to appeal to people's emotions. They've got to buy in with their hearts and their beliefs, not just the minds."

So he toured the company and told his employees “I’m one of us now.”

Staci Collins can attest to this from her own experience. “Some years ago I was a Director of HR for a Fortune 500 consulting company. My role was as coach and consultant to a recently grown business unit. My clients were their 60 highly educated, conscientious senior and experienced managers. The long-tenured high-performers were concerned. While their unit had tripled in size in just a few years, the new folks weren’t performing as the old and consistently the team was missing their sales numbers. After meeting in-depth which each one, my junior colleague and I rolled up the unhappy news. Morale was low and daily eroding. People felt pummeled, tired, mired in conflict and confusion.

Though the top executives began coming to me of their own accord for coaching, present facts as I might, I could not make them understand how their leadership and management styles of increasingly detailed spreadsheets highlighting how we were missing our goals – was not helping. We were certain the poor morale and the vicious spiral was created by demands from the top without accompanying inspiration and training. We did hire sales staff, but results and mood remained gloomy.

I let myself be lured away by a dot.com, as did many other high performers. The unit shrank back down, and though at least three of my best clients went on to executive ranks – citing my help as key to their success - the once heroic leader of the group was reassigned to a less important arena. My lack of result there with him and thus the larger team, always haunted me. I knew there was something we – a group of talented, caring professionals - had missed.”

Well, two years later Daniel Goleman came out with *Emotional Intelligence* and then *Primal Leadership* both from Harvard Business School Press, that brought forward

the studies showing how emotion and mood drive performance. Climate or company mood has a 20 to 30% effect on business performance. The leader drives 50 to 70% of climate. (Goleman, 2002)

And stories drive mood most effectively. Why? Howard Gardner, the professor of education at Harvard, Adjunct Professor of Neurology at Boston University School of Medicine, who gave us the revolutionary 7 intelligences in *Framing Minds*, gives us an answer from psychological research in his 1995 leadership classic *Leading Minds: An Anatomy of Leadership*. For this book, he analyzed the speeches, biographies, autobiographies of 11 innovative or visionary world leaders, such as Robert J. Oppenheimer, Alfred P. Sloan, chief of staff George C. Marshall, Margaret Thatcher, Martin Luther King Jr. and Mahatma Gandhi, “persons who, by word and/or personal example, markedly influence the behaviors, thoughts, and/or feelings of a significant number of their fellow human beings.”

He writes, “I have argued that a key—perhaps *the* key—to leadership, as well as to the garnering of a following, is the effective communication of a story... I maintain that the most fundamental stories fashioned by leaders concern issues of personal and group identity; those leaders who presume to bring about major alterations across a significant population must in some way help their audience members think through who they are.”

Now how would that apply to our example of the consulting company above? Our example demonstrates how individuals and organizations can come to see their own identities and their corporate identity as inseparable from the problems they face. Conflict, Confusion, Anxiety, Overwork and failure can overwhelm even the most capable and talented staff members when they are seen as unavoidable and even inherent in a workplace. The mood remains gloomy because the story of that organization has become so saturated with problems that there is no longer room to breathe, let alone achieve.

If we don't guide and direct a positive narrative, a negative narrative may very well drive us.

Dozens of studies (we found over 40) have shown us how emotions play a critical role in leading others to shared success.

- ✓ In cardiac care units, where the nurses' general mood was "depressed" the death rate among patients was four times higher than on comparable units.
- ✓ 1995 Hay Group study of 19 life insurance companies that showed climate created by CEO among their direct reports predicted business performance of the entire organization. "In 75% of cases, climate alone accurately sorted companies into high versus low profits and growth." (Goleman, 2002)
- ✓ "For every 1 percent improvement in the service climate, there's a 2 percent increase in revenue." Lyle Spencer in 2001 at the Consortium for Research on Emotional Intelligence in Organizations, Cambridge, MA.
- ✓ In bank branches, insurance company regional offices, credit card call centers and hospitals, employee's ratings of "service climate" predicted customer satisfaction, which drove business results. In addition, poor morale among front-line reps predicted high turnover and declining customer satisfaction for up to three more years. Benjamin Schneider from University of Maryland, *Winning the Service Game* (HBS Press, 1995)
- ✓ Goleman, Boyatzis and McKee (2002) on a global database of 3,871 executives assessed factors in workplace environment. Their analysis found that "all other things being equal, leaders who used styles with a positive emotional impact

saw decidedly better financial returns than those who did not."

Feeling good, it turns out, "lubricates mental efficiency, making people better at understanding information and using decision rules in complex judgments, as well as more flexible in their thinking." So "when people feel good, they work at their best." A.M. Isen, *Handbook of Cognition and Emotion*, Wiley, 1999.

Even change guru John Kotter weighs in, in his *The Heart of Change: Real-Life Stories of How People Change Their Organizations*, HBS Press: 2002 based on stories they collected from over 400 people in 130 organizations on four continents. Turns out the key to changing behavior in each of his eight steps is to help people see-feel-change, *not* analyze-think-change. He writes,

"Our main finding, put simply, is that the central issue is never strategy, structure, culture, or systems. All those elements, and others, are important. But the core of the matter is always about changing the behavior of people, and behavior change happens in highly successful situations mostly by speaking to people's feelings."

Studies on emotion have traveled into the burgeoning field of behavioral economics. 2002 MacArthur Fellow economist Sendhil Mullainathan says, "We tend to think people are driven by purposeful choices. We think big things drive big behaviors... Instead most behaviors are driven by the moment... in real time, the moment can be very tempting. The main thing is to define what is in your mind at the moment of choice... A behavioral economist might suggest convincing supermarkets to display your soap at eye level—people will see your brand first and grab it."

Speaking of one experiment with a bank in South Africa that wanted to make more loans, he noted, "What we found stunned me. We found that... A woman's photo instead of a man's, increased demand among men by as much as

dropping the interest rate five points! ... We are talking about big loans here; customers would end up with monthly loan payments of around 10 percent of their annual income. The photo, cell phone lottery, simple or complicated table, and deadline all had effects on loan applications comparable to interest. Interest rate may not even be the *third* most important factor. As an economist, even when you think psychology is important, you don't think it's *this* important."

David Laibson, a neuroeconomist, finds that "People act irrationally in that they overly discount the future...future events have perhaps half the value of present ones...temptation usually trumps prudence." All these findings suggest that an immediate bump in mood drives sales better than any well thought out plan.

But why does narrative so powerfully affect mood? Think of the last time you went to a great movie. Did you leave feeling the same as when you came in? Experts say narrative is a kind of mental software that goes back in everyone almost to the beginning. "By the age of five or so, the young child has already become a creator and a consumer of stories...Adults never lose their sensitivity to these basic narratives." (Gardner, 1995)

Narrative, argues psychologist Jerome Bruner (1990) is "one of the most ubiquitous and powerful discourse forms in human communication... an instrument for making meaning that dominates much of life in culture--from soliloquies at bedtime to the weighing of testimony in our legal system."

Scholar Walter Fisher (1987) sees narrative as the "master mode" of communication subsuming all other types of reasoning including argument. Philosophers (e.g., Johnson, 1993; MacIntyre, 1981) and psychologists (e.g., Bruner, 1986; Sarbin, 1986) posit that the narrative form is *constitutive* [making a thing what it is: essential] of human understanding and is

integral to meaning-making, identity building and purposeful acting.

Behavioral economists talk about narrative through "framing." It began in 1979 when two Princeton and a Stanford psychologist published "Prospect Theory" which became one of the most widely cited papers in economics over the next decades. They argued that the ways alternatives are "framed" – not simply their relative value – heavily influence the decisions people make. Framing changes people's preferences regarding risk. "People are more willing, apparently, to take risks to prevent lives being 'lost' than to 'save' lives." So it's how you frame the data that will drive people's responses.

The branch of psychology known as Narrative Therapy (pioneered by Michael White and David Epston) views "story" as the most basic unit of human experience and uncovers how individuals create meaning through narrative lenses that are in constant flux. Narrative Therapy techniques provide tools to help individuals and organizations begin to challenge stories that are dominated by problems and create new stories that champion their values, talents, and aspirations.

Narrative Therapy techniques help draw out memories and details about exactly how problems have been negatively impacting work life or work results. Narrative consultants also use careful questioning techniques to uncover something even more essential: the moments when the grip of the problem has been loosened. Individuals can then begin to see their strengths and those of their colleagues as separate from the problems that may have once seemed overwhelming.

Together a team of colleagues can re-story their past with an eye to understanding how to tap into their best talents and what types of collaboration feed those talents (and starve their problems). Past failures can be mined for the information they provide instead of being seen as inevitable predictors of the future. With reframed stories of the past, colleagues can

create a blueprint for the future and a template for co-creating stories of success.

Narrative obviously doesn't control external factors, replace rational analysis, remake broken trusts by itself or on its own make sound business decisions. But as we see from General Electric, having an organized story that tracks historical and current goals, true market position, characters (whether individuals, competitors, customers, regulators or stakeholders) point of view, turning points and imagined future scenarios, can help drive an organization toward success and keep a large group on track.

We can all think of a corporate myth from a company we remember. And many organizational developers have proposed designing and driving those. Mitroff and Kilmann (1975), Deal and Kennedy (1982), McWhinney and Batista (1988). We know from the economists that these myths frame behavior and decision-making. But we also know from change management gurus that the trust beneath frames the frame. Whether we believe your story drives how much we accept it. So, how do we create credibility?

Walter Fisher (1987) says people judge narrative probability and fidelity. Probability is whether the components of the story fit consistently together in a sensible sequence. Fidelity is whether the story rings true to one's own, lived experience.

This could explain why one employee at Enron asked Ken Lay if he were "smoking crack" before they announced bankruptcy when his story wasn't matching up with the SEC's probing, press reports of executive impropriety and a plunging stock price.

But perhaps the best explanation for why narrative works is from Ms. Jameson who notes, "Stories, then, operate on two levels: the concrete recounting of hypothetical or actual events and the abstract concept that unifies the events into a whole and implies their significance."

By giving concrete actual or hypothetical events authentic context, which shows or implies their significance, we create positive (inspired) moods in our folks and inspired moods drive inspired performance.

You see, narrative storytelling can be learned. For 20+ years we've taught about 500 executive and managerial job and career seekers how to use stories to win multiple offers in eight to ten weeks. They came from and went to firms such as Banker's Trust, Deloitte & Touche, Oracle, Haas School of Business, and Bank of America. Often they'd tell me, they used the same communication skills to drive their careers and teams.

As one client, now a successful top executive, kindly wrote, "I started working with Staci at a point in my career where I was "browed out" and unsure of what I wanted to do/be long term. I worked closely with her to help define what was important to me, some ways to manage aspects of my job/career that I did not like, and helped to reinforce those aspects of my career that truly energized me. This helped me commit to a long-term strategy that has truly resulted in a life balance and satisfaction that energizes me today."

We've also helped entrepreneurs to make a compelling elevator pitch, that sound-bite sized story that convinces investors your invention will make the world a better place. As investors will tell you, they have to feel the excitement and believe in the promise of a break-through technology or business model and that the entrepreneur can deliver it before they sign that check. In workshops and one-on-one coaching, these entrepreneurs turned rambling generalities and hyperbole into tightly crafted and authentic stories that inspired trust.

As Noel Tichy wrote in "The Story as Central," "Stories of identity, narratives that help individuals think about and feel who they are, where they come from, and where they are headed, constitute the single most powerful weapon in the leader's arsenal."

For more information on how to drive your success through authentic narrative technique, contact us at www.narrativeedge.com.

Staci Collins is a Harvard anthropologist cum MBA turned writer and coach who's spent 21 years helping Bay Area managers and executives succeed through understanding their own stories.

Kristin Penner holds master's degrees in both history and clinical psychology, after studying history and literature at Harvard. As a psychotherapist, she spent years using Narrative Therapy to help individuals and families "re-story" and reclaim their lives from problems including substance abuse, depression, post-traumatic stress disorder, and domestic violence.

Kathy Kim, Harvard biologist, UC Berkeley MBA and MPH, was one of the few (less than 2% of funded startups are led by women) women entrepreneurs who pitched her way into venture funding. She now teaches and mentors undergraduates at Berkeley and consults with healthcare organizations.